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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003557

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TAGS: ECON EFIN PGOV IZ
SUBJECT: COR APPROVES SENSIBLE PENSION REFORM

REF: BAGHDAD 2830

Classified By: Economic Minister Charles P. Ries for reasons 1.4 (b) an d (d)

¶1. (C) Begin Summary: The Iraqi Council of Representatives (CoR) on 3 October had the third and final reading of the First Amendment to the Unified Retirement Law (#27/2006) and arguably passed the first significant piece of legislation toward achieving national reconciliation. While some technical details remain to be finalized, the vote illustrates the CoR's ability to reach broad consensus on a critical component of fiscal policy. The IMF has indicated these approved amendments to the Unified Retirement Law will not unduly jeopardize Iraq's future fiscal stability. Still, according to the Iraqi Constitution, the Presidency Council must ratify the vote and then the amendments must be published in the Official Gazette for final enactment of the law. End Summary.

Details, details

¶2. (SBU) The Unified Retirement Law will apply uniform eligibility requirements based on age and length of service for all public sector employees who retired after the original enactment date of 17 January 2006 as well as future retirees. Specifically, the law will cover employees and former employees of the public sector (including civilian and military, security and state owned enterprise employees); employees dismissed by the former regime for political reasons who returned to office according to the provisions of Law #24/2005; and employees of certain dismantled entities who were not reemployed after 9 April 2003. Surviving close relatives of deceased employees meeting the aforementioned criteria are similarly covered.

¶3. (U) A provision within the law will permit movement of employees between the private and public sectors without jeopardizing their pensions provided they have made contributions while employed in each sector. Previously, service and pension contributions in the public and private sector could not be combined, and joint service was not counted. Employees are responsible for contributing 7 percent of their salary with employers responsible for an additional 12 percent. The law establishes a minimum retirement age of 50 with 25 years of service for civilians and requires only 20 years of service for members of the military. Retirement is compulsory upon reaching the age of 63, but requests for a maximum three-year extension may be granted if approved by the Prime Minister.

Equitable, Affordable Solution Reached

¶4. (SBU) One of the major issues of contention during CoR debates on the amendment (see reftel) was the unequal treatment of pensioners who retired prior to 17 January 2006 (enactment of the Unified Retirement Law) and those who retired thereafter. Included in an annex to the First Amendment is a series of tables that provides for an uniform upward adjustment to the pension amounts received by "old" pensioners based upon age and years of service, which, while not totally on par with the new system, was generally well-received by the CoR, as evidenced by the amendment's passage.

¶5. (SBU) The legislation paves the way for the creation of a National Board of Pensions as well as the State Pension Fund, into which pension contributions will be deposited and from which all "new" pensioners will be paid. The National Board will be led by a President with the rank of Deputy Minister who will report to the Minister of Finance. The National Board of Pensions will administer the pension system for public employees. "Old" pensioners, according to the Amendment, will continue to be paid out of the Federal Budget. The 2007 Budget Law allocated 3.7 trillion ID (2.9 billion USD) for emergency pension payments for existing pensioners while enactment of the Unified Retirement Law stalled. Even under the new benefits calculation system adjusting upward "old" pensioners, this allocation will be more than sufficient to meet the federal government's pension payment obligation, according to the Pension Reform Steering Committee. In the future, the pension payment obligation for the Federal Budget is expected to decline due to natural attrition. The Pension Reform Steering Committee (PRSC) estimates the number of existing "old" pensioners (i.e. those who retired prior to 17 January 2006) to be approximately 1.1 million.

Lingering Kurdish Concerns

¶6. (SBU) In a 22 October meeting with Econoffs, members of the CoR Finance Committee including Ala Alsadon (Tawafuq - Sunni), Muna Zalzala (UIA, ISCI - Shia), and Sami Atroshi (KIA - Kurd) expressed full confidence that the law would pass smoothly through the Presidency Council, noting that the CoR officially passed the legislation to the Council only the previous day (21 October). Finance Committee Member Atroshi raised an outstanding issue which he believed had not been addressed by the legislation. While the federal government did not implement any of the measures of the Unified Retirement Law, according to Atroshi, the Kurdistan Regional Government had, and subsequently an unknown number of Kurds took retirement and have been receiving pensions according to the original benefits calculation formula, which was extremely generous and to which the IMF strongly objected. Atroshi could not provide an estimated number of Kurdish pensioners who would be affected, but guessed it would be small. Still, he cautioned that perhaps a new amendment would be necessary to ensure the group in question receives an equitable solution. The PRSC position on this group is that their benefits will be recalculated according to the guidelines as promulgated for "new" pensioners, i.e. those who retired after 17 January 2006.

¶7. (C) Atroshi also complained that Article 16 of the legislation, which discusses the provision of retirement benefits to members of certain dismantled entities as well as those covered by CPA Order 91 (Regulation of Armed Forces and Militias Within Iraq), was surreptitiously added at the last minute. He claimed that the text addition circumvented proper vetting by the Finance Committee and the plenary. Potentially "tens of thousands" of new pensioners may result from this provision, he exclaimed. In a 26 October telcon with Econoff, Ali Awayed Abbas, the Director General for the State Pension Department and Chair of the PRSC, claimed that Atroshi had

taken Article 16 out of its proper context. Abbas clarified that the text was intended to ensure that those covered under CPA Order 91 who took retirement according to that Order's provisions would be entitled to the retirement benefits they had received.

Comment

¶8. (C) With the stalled passage of provincial powers, hydrocarbons, and de-Ba'athification reform legislation, the CoR's passage of pension reform is a significant achievement. With the degree of media attention the public debates generated, a real sense of accountability to constituents prevailed upon the CoR the need to pass sensible and equitable legislation. While our interlocutors seemed certain the Presidency Council would not hold up the legislation's ultimate passage, we will continue to monitor closely for final publication in the Official Gazette. Based upon the CoR Finance Committee's claim that the legislation was submitted to the Presidency Council 21 October, if by 5 November no formal objection is received by the CoR, publication in the Official Gazette should ensue.
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